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FISCAL IMPACT STATEMENT

LS 7864 **NOTE PREPARED:** Jan 14, 2005
BILL NUMBER: SB 612 **BILL AMENDED:**

SUBJECT: State Unemployment Tax Avoidance (SUTA) Dumping.

FIRST AUTHOR: Sen. Harrison **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **IMPACT:** State
DEDICATED
X **FEDERAL**

Summary of Legislation: This bill establishes the circumstances, as prescribed by federal law, in which a mandatory transfer or prohibited transfer of the resources and liabilities of an employer's experience account and contribution rate occurs for unemployment compensation purposes. It establishes criminal and civil penalties for the transfer or acquisition of a trade or business solely or primarily for the purpose of obtaining a lower employer contribution rate.

Effective Date: July 1, 2005.

Explanation of State Expenditures:

Explanation of State Revenues: The U. S. Congress passed the State Unemployment Tax Avoidance Dumping Prevention Act of 2003 (P.L. 108-295). The law requires stronger state laws, including language to impose penalties on employers or business advisers who participate in or promote SUTA dumping. States that fail to pass the required legislation would lose their federal unemployment administrative funds. The state is projected to receive about $69.5 M in federal unemployment administrative funds in each of FY 2006 and FY 2007. The bill may increase revenue into the Unemployment Insurance Trust Fund. The Congressional Budget Office has estimated that the new law will increase revenues by $342 M nationally over the 2005-2014 period.

Penalty Provision: If additional court cases occur and fines are collected, revenue to both the Common School Fund (from fines) and the state General Fund (from court fees) would increase. The maximum fine for a Class C misdemeanor is $500. However, any additional revenue would likely be small. In addition the person would be subject to a civil penalty. The civil penalty could be:

1. The highest employer contribution rate for the year in which the violation occurred and the following 3 years.
2. An employer contribution rate of 2% of the employer's taxable wages for the year in which the violation occurred and the following 3 years, if the employer is already paying the highest employer contribution rate or the increase in the contribution rate in (1.), above, is less than 2%.

Explanation of Local Expenditures: *Penalty Provision:* A Class C misdemeanor is punishable by up to 60 days in jail.

Explanation of Local Revenues: *Penalty Provision:* If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from court fees. However, any change in revenue would likely be small.

State Agencies Affected:

Local Agencies Affected: Trial courts, local law enforcement agencies.

Information Sources: Congressional Budget Office.

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